

General Fund Balancing Strategy Detail

2007-2008 Adopted Budget

INTRODUCTION

This Attachment is intended to provide a brief, but more detailed, summary of the key actions provided for in the General Fund as part of the overall strategy to balance the 2007-2008 Adopted General Fund Budget. The February 2007 Forecast Base Budget was used a starting point in balancing the 2007-2008 General Fund budget. From the release of the February 2007 Forecast, revenue and expenditure adjustments were incorporated into the Revised Forecast Base Budget, the Proposed Budget, and the Adopted Budget.

In February 2007, the Administration presented to the City Council formal projections for the 2007-2008 General Fund budget as part of the *2007-2008 City Manager's Budget Request & 2008-2012 Five-Year Forecast and Revenue Projections* document. The 2007-2008 "base-case" projections in that document indicated the presence of a shortfall totaling approximately \$16.2 million. This "shortfall" represented the difference or gap between projected 2007-2008 General Fund resources and the expected cost of both current services in next year's terms, and providing for several Council "committed" augmentations (e.g., the costs of operating and maintaining new facilities).

Subsequent to the release of the February Forecast, a number of expenditures and revenue estimates were revised based on updated information. These revisions were incorporated into a Revised Forecast Base Budget that was used in the development of the 2007-2008 budget. The General Fund sources were reduced by \$2.7 million and the costs were reduced by \$2.9 million, bringing the estimated General Fund shortfall down by \$0.2 million to \$16.0 million.

In addition to developing a strategy to eliminate the basic \$16.0 million shortfall, a separate strategy was approved to address the shortfall (\$3.9 million) projected for the General Fund cost recovery Development Fee Programs. The Development Fee Programs are directed by City Council policy to recover 100% of the cost of development review and inspection. The February Forecast assumed that consistent with that policy, these fee programs would develop a strategy that would completely address the shortfall. Including the fee program shortfall, the total gap addressed in the Proposed Budget is \$19.9 million.

The 2007-2008 Proposed Budget contained a set of actions that increased both overall General Fund sources (by a total of \$41.8 million), and net costs (by \$21.9 million) for a net reduction of \$19.9 million. The revenue changes included two major components: additional 2007-2008 Beginning Fund Balance generated from reserves (\$24.8 million) and excess revenues/expenditures savings from 2006-2007 (\$4.1 million); and the addition of \$12.9 million in revenues and transfers from other funds to be generated in 2007-2008.

The expenditure increase of \$21.9 million was the net impact of two components: program expenditure reductions of \$13.8 million offset by \$35.7 million in recommended augmentations, of which \$5.4 million was ongoing and \$16.5 million was one-time. The proposed reductions of \$13.8 million included staffing and non-personal/equipment eliminations (\$9.2 million), funding shifts (\$2.4 million) and use of reserves (\$2.2 million). The \$35.7 million increase included funding to address technology and capital infrastructure maintenance (\$18.8 million),

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INTRODUCTION (CONT'D.)

neighborhood services activities (\$3.9 million), new facilities operations and maintenance (\$2.5 million), economic development activities (\$2.1 million), City Council direction via approval of the 2007-2008 Mayor's March Budget Message (\$1.4 million), and miscellaneous additions (\$7.0 million). The result of these adjustments was a balanced 2007-2008 General Fund Proposed Budget of \$896.2 million.

From the release of the Proposed Budget to the final adoption of the budget, additional revisions totaling \$135.6 million occurred. The largest component of the increase from the Proposed Budget to the Adopted Budget was the rebudget of 2006-2007 funds (\$133.0 million) to be carried forward to 2007-2008 to complete various projects.

The following Table (I) displays the overall projections for the 2007-2008 General Fund as they changed between the February 2007 Forecast and the Adopted Budget.

Table I
2007-2008 ADOPTED OPERATING BUDGET
Forecast To Adopted Budget Reconciliation

	Total Sources	Total Uses	(Shortfall)/ Surplus
February Forecast	\$ 857.11	\$ 873.32	(\$ 16.21)
Forecast Revisions	(2.68)	(2.89)	(0.21)
Revised Forecast (no fee impact)	854.43	870.43	(16.00)
Development Fee Program Impact	0.00	3.87	(3.87)
Revised Forecast (with fee impact)	854.43	874.30	(19.87)
Proposed Revisions	41.79	21.92	19.87
2007-2008 Proposed Budget	\$ 896.22	\$ 896.22	\$ 0.00
Adopted Revisions	135.56	135.56	0.00
2007-2008 Adopted Budget	\$ 1,031.78	\$ 1,031.78	\$ 0.00

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REVISED FORECAST BASE BUDGET

As discussed above, following the issuance of the February Forecast, detailed analysis of the status of General Fund revenues and expenditures continued. Based on this review, a series of changes to the Forecast Base

Budget estimates for both sources and uses were incorporated into the Proposed Budget in the form of a Revised Forecast Base. This Revised Forecast Base Budget (no fee impact) resulted in a revised shortfall estimate of \$16.0 million, down slightly (\$0.2 million) from that shown in the February Forecast.

REVISED FORECAST SUMMARY OF CHANGES

Revisions to the source estimates contained in the February Forecast that were incorporated into the Revised Forecast included the following:

<u>Sources</u>	<u>Revision</u>
Sales Tax	(\$ 3,850,000)
Franchise Fees	1,177,000
Licenses and Permits	300,000
Revenue from the Local Agencies	22,000
Departmental Charges	5,000
Transfers and Reimbursements	<u>(334,000)</u>
Net Change in Sources	(\$ 2,680,000)

After the release of the February Forecast, changes to the General Fund uses included:

<u>Uses</u>	<u>Revision</u>
Debt Service Payments for City Hall	\$ (1,451,000)
Salary and Benefit Reserve	(1,179,000)
Miscellaneous Revisions	<u>(260,000)</u>
Net Change in Uses	\$ (2,890,000)

Following is a brief description of the Revised Forecast changes in the General Fund revenues:

- The Sales Tax revenue estimate for 2007-2008 was revised downwards by \$3.85 million to reflect the combination of lower than anticipated actual collections in the second quarter of 2006-2007, lower growth assumptions for the remainder of 2006-2007, and lower growth assumptions for 2007-2008. When the 2008-2012 Forecast was developed, it was assumed that growth

of 4% over the prior year would be realized in the second quarter of 2006-2007. Actual collections for this quarter, however, were actually down slightly from the prior year, with a decline of just under 1%. Given the declines in the first two quarters of this fiscal year, projections for the remaining two quarters were revised downwards. It is then assumed that no growth would be experienced in the remaining two quarters. The 2007-2008 Sales Tax growth rate was

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REVISED FORECAST BASE BUDGET (CONT'D.)

also revised downwards from 4% to 3%.

- The Franchise Fees category was adjusted upwards by \$1.2 million to reflect higher than estimated Electric Franchise Fee collections in 2006-2007.
- The Licenses and Permits category was adjusted upwards by \$300,000 to reflect higher than projected Cardroom Business Tax collections.
- The Revenue from Local Agencies estimate was increased by \$21,636 to reflect updates to the estimates for Redevelopment Agency reimbursements.
- The Departmental Charges category estimate was increased \$5,000 to reflect updated Animal Care and Services Program revenue estimates.
- The Transfers and Reimbursements category was decreased by \$334,000. The largest element of this adjustment was a downward revision of \$376,000 to the Rate of Return from the Water Utility Fund to reflect the cap on the total transfer to the General Fund of 8% of water sales per City Ordinance. The overhead estimates were increased by \$39,000 based on updated labor costs and overhead rates.

Revisions to the February forecasted 2007-2008 expenditure levels included the following:

- A reduction to the Transfer to the City Hall Debt Service Fund to reflect updated debt service requirements for the City Hall facility in 2007-2008 primarily due to a delay in issuance of

debt for the employee parking garage. This resulted in a savings of \$1,451,000 from the amount assumed in the forecast.

- A thorough review of funding requirements for Salaries and Health and Other Fringe Benefits for 2007-2008 resulted in a savings of \$1,179,000.
- Finally all Base Budget expenditure estimates were also carefully re-examined during the time between the February Forecast and the issuance of the Proposed Budget. This review resulted in miscellaneous savings of \$260,000 in the General Fund.

PROPOSED BUDGET BALANCING STRATEGY

Specific Council direction regarding the preparation of the Proposed Budget was provided in the Mayor's March Budget Message. The details of the specific elements of that Message and the responses contained in this budget are provided in Attachment B. Attachment C contains information regarding the status of City Auditor recommendations with funding impacts.

As summarized in Table II and discussed below, the budget balancing strategy developed by the Administration resulted in a balanced 2007-2008 General Fund Proposed Budget totaling \$896.2 million. Following that is a brief discussion of the key elements of the budget balancing actions that were included in that Proposed Budget. Much more detailed descriptions of these elements are provided elsewhere in this document or in the 2007-2008 Fees and Charges document that is published under separate cover.

General Fund Balancing Strategy Detail (Cont'd.)

PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)

Table II
2007-2008 PROPOSED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy

	2007-2008	Ongoing
Revised Forecast	(\$ 16,004)	(\$ 16,004)
Development Fee Program Impact	(3,868)	(3,868)
Revised Forecast	(\$ 19,872)	(\$ 19,872)
Balancing Strategy		
Additional Resources		
Available Fund Balance:		
2007-2008 Future Deficit Reserve	\$ 10,630	\$ 0
Use of Earmarked Reserves	10,739	2,000
2006-2007 Excess Revenue/Expenditure Savings	4,109	0
Development-Related Fee Program Reserves	3,442	0
Transfers:		
Emergency Communication System Support Fee	2,800	2,800
Sewage Treatment Plant Connection Fee Fund	2,100	0
Other Transfers	1,018	715
Development-Related Fee Revenue	2,695	4,421
Revenue Collection Strategic Plan	1,150	575
Other Revenue Changes	3,110	2,677
Subtotal Additional Resources	\$ 41,793	\$ 13,188
Funding Changes by City Service Area		
Community and Economic Development:		
Non-Development-Related Programs	\$ 1,286	\$ (765)
Development-Related Fee Programs	1,465	126
Environmental and Utility Services	59	(191)
Neighborhood Services	6,003	(68)
Public Safety	229	882
Transportation and Aviation Services	2,666	(3,172)
Strategic Support:		
Technology and Capital Infrastructure Reserve	6,804	0
Strategic Support, Mayor, City Council and Appointees	3,409	(2,234)
Subtotal Funding Changes by City Service Area	\$ 21,921	\$ (5,422)
Total Balancing Strategy	\$ 19,872	\$ 18,610
Remaining Balance	\$ 0	(\$ 1,262)

General Fund Balancing Strategy Detail (Cont'd.)

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PROPOSED BUDGET BALANCING STRATEGY (CONT'D.)

Additional Resources

From the Revised Forecast of \$854.4 million, additional resources totaling \$41.8 million were recommended, resulting in a Proposed Budget revenue estimate total of \$896.2 million. The components of the \$41.8 million increase are broken down as follows: an increase in the estimate for the 2006-2007 Ending Fund Balance/2007-2008 Beginning Fund Balance (\$28.9 million) and increases to revenue estimates (\$12.9 million).

Available Fund Balance

The increase in the fund balance estimate of \$28.9 reflected an increase in expectations for excess revenue and expenditure savings in 2006-2007 (\$4.1 million); and the liquidation of 2006-2007 reserves (\$24.8 million). The reserves included the 2007-2008 Future Deficit Reserve (\$10.6 million), the Salary and Benefits Reserve (\$6.5 million), the Development-Related Fee Reserves (\$3.4 million), the Enhanced Parks Maintenance Reserve (\$2.0 million), and the Technology Reserve (\$2.0 million).

Increases to 2007-2008 Revenue Estimates

The \$12.9 million increase to the revenue estimates were spread among many of the revenue categories. One of the largest adjustments included a \$2.8 million increase in the Transfer from the Emergency Communication System Support Fee Fund to reimburse the General Fund for costs associated with providing emergency dispatch services. This increase was based on collection trends and a more detailed analysis

of eligible costs with the existing fee. A transfer of \$2.1 million from the Sewage Treatment Connection Fee Fund was proposed to reflect the General Fund's share of proceeds from the sale of land to Pacific Gas and Electric Company as part of a legal settlement involving land at the Water Pollution Control Plant. Other recommended transfers included \$465,000 from the Construction Excise Tax Fund as a budget balancing solution and \$386,000 from various funds for their portion of the \$2.0 million allocated to begin addressing the GASB 43/45 liability.

The Licenses and Permits (up \$2.4 million) and Departmental Charges (up \$2.0 million) categories were adjusted upward to reflect updated fees to remain at cost-recovery in the various fee programs and to reflect increased collection efforts by the Finance Department.

The Overhead category was increased by \$1.1 million based on the addition of various special-funded positions in the Proposed Budget. Other smaller adjustments resulted in an increase of approximately \$1.7 million to the revenue estimates.

Funding Changes by City Service Area

The remainder of the proposed balancing strategy involved a multitude of specific recommended expenditure actions, resulting in a net increase of \$21.9 million, with an ongoing savings value of \$5.4 million.

A full listing of the proposed budget modifications is provided by City Service Area (CSA) in Table II and the budget actions are described in greater detail in the CSA and

General Fund Balancing Strategy Detail (Cont'd.)

departmental sections of the Adopted Budget document.

ADOPTED BUDGET BALANCING STRATEGY

The final phase of the 2007-2008 budget process commenced following the issuance of the City Manager's Proposed Budget and consisted of the following major steps: City Council Budget Study Sessions on the Proposed Budget; issuance by Administration of recommended revisions to the Proposed Budget (in the form of formal Manager's Budget Addendums, or MBA's); formal public input through the Public Hearings process; issuance of the Mayor's June Budget Message memorandum; and approval by the City of a final Adopted Budget.

Summarized in Table III by general category are the additional funding requirements introduced by Manager's Budget Addenda or the Mayor's June Budget Message. (The full text of the Message is included as an Appendix to this document.) Those additional requirements totaled \$135.6 million. By far the largest component of the increase was rebudgets of 2006-2007 funds (\$133.6 million) to be carried forward for the completion of various projects. Detailed descriptions of the approved changes are provided in the specific City Service area sections of this document.

Table III
2007-2008 ADOPTED OPERATING BUDGET
General Fund Funding Requirements and Balancing Strategy

	2007-2008	Ongoing
Remaining Balance (from Table II)	\$ 0	(\$ 1,262)
Balancing Strategy		
Additional Resources		
Fund Balance to Support 2006-2007 Projects	\$ 125,148	\$ 0
Revenue-Related Rebudgets to Support 2006-2007 Projects	8,469	
Other Revenue Changes	<u>1,938</u>	<u>971</u>
Subtotal Additional Resources	\$ 135,555	\$ 971
Funding Changes by City Service Area		
Community and Economic Development	\$ 147	\$ 0
Neighborhood Services	1,319	28
Environmental and Utility Services	209	0
Public Safety	395	141
Transportation and Aviation Services	513	513
Strategic Support:	(64)	305
Other Funding Changes:		
Rebudgeted 2006-2007 Projects	<u>133,035</u>	<u>0</u>
Funding Changes by City Service Area	\$ 135,555	\$ 987
Total Balancing Strategy	\$ 0	(\$ 16)

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Remaining Balance	\$	0	(\$	1,278)
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ADOPTED BUDGET BALANCING STRATEGY (CONT'D.)

Additional Resources

As part of the City Council-approved revisions to the Proposed Budget, a total of \$135.6 million in additional resources were approved to be utilized as part of the Adopted Budget strategy. The major elements of these revisions are described below.

Fund Balance to Support 2006-2007 Rebudgeted Projects

The unrestricted portion of the 2006-2007 Ending/2006-2007 Beginning Fund Balance estimated was adjusted upward from earlier estimates by an additional \$125.1 million to reflect the 2006-2007 funding which was estimated to be available to be carried over to 2007-2008 to complete previously approved projects.

Revenue Rebudgeted to Support 2006-2007 Rebudgeted Projections

The Adopted Budget includes grant and reimbursement-related revenue totaling \$8.5 million that was rebudgeted from 2006-2007 to complete the associated projects in 2007-2008. These revenue-related rebudgets were spread among a number of revenue categories (Local Agencies, State, Federal Government, and Other Revenue).

Other Revenue Adjustments

Several revenue adjustments resulting in a net increase of \$1.9 million were approved as part of the Adopted Budget. These actions included the following: upward adjustment of \$1.0 million to the Airport Overhead revenue estimate based on the final 2007-2008

overhead rate, an upward adjustment of \$513,000 to the Fines and Forfeitures revenue estimate to reflect increased parking enforcement associated with new Parking and Traffic Control Officers; an upward adjustment of \$414,000 to the Other Revenue estimate to reflect additional revenue associated with the PG & E Energy Watch (\$184,000) and the City's Banking Services Program (\$230,000); an upward adjustment of \$400,000 to the Fund Balance estimate to reflect estimated Council General savings; an upward adjustment of \$230,750 to the Revenue from the State estimate to reflect the new Waste Tire Enforcement Program; and an upward adjustment of 145,000 to the Revenue from the Federal Government estimate to reflect various federal grants. These actions were partially offset by downward adjustments of \$500,000 to the SB 813 Property Tax revenue estimate and \$300,000 to the Utility Tax revenue estimate based on updated information.

Adopted Budget Funding Changes by City Service Area

Actions resulting in a net addition of \$135.6 million were approved as part of the Adopted Budget phase. The following highlights some of the more significant General Fund budget changes that were approved in the final phase of the process and have been grouped by City Service Area.

Community and Economic Development CSA

Partially offsetting restorations in other areas was the approved elimination of one-time funding for the Global Fluency program

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(augmented funding had been provided for an
**ADOPTED BUDGET BALANCING
 STRATEGY (CONT'D.)**

Adopted Budget Funding Changes by City Service Area (Cont'd.)

Community and Economic Development CSA (Cont'd.)

approved to provide two new Planner positions to improve the permitting process (\$199,900), to help facilitate a Property Based Improvement District along Lincoln Avenue (\$65,000), and to support the temporary relocation of the Children's Musical Theatre's summer production during the staging of the Grand Prix (\$33,000).

Environmental and Utility Services CSA

Funding was approved to help promote Green Challenge, a volunteer program aimed at improving the environment (\$25,000) and a PG & E grant for an Energy Watch program (\$184,000).

Neighborhood Services CSA

Funding of \$1.3 million was approved for a Public/Private Parks Maintenance Partnership (\$333,000), support of Emergency Housing Consortium's Lifebuilders Homeless Shelter (\$257,000), Kirk Community Center Minor Improvements (\$250,000), establishing a Waste Tire Program (\$210,000), a Pilot Homework Center Program by San José Foundation (\$100,000), Police Athletic League's Stadium Improvements (\$100,000), South Bay Children's Medical Center's Children's Mobile Health Clinic (\$42,000), and restoration of a position to support the Youth Commission (\$27,000).

international marketing plan). Funding was
Public Safety CSA

Funding was included for the restoration of Police Crime Data Specialist staffing (\$83,000); support implementation of a 90-day pilot project for transitioning Downtown's restaurants and nightclubs to a 3 a.m. soft closing (\$167,000), and various Public Safety Grants (\$145,000).

Transportation and Aviation Services CSA

Funding was included for the formation of a School Area Parking Compliance Team (\$513,000).

Strategic Support CSA

Funding was included for the restoration of a support position in the City Clerk's Office (\$69,000), technical adjustments to the Mayor and City Council budget (\$28,000), support of higher Banking Services costs (\$230,000), and remaining funds to the Contingency Reserve (\$48,000). Offsetting these increases was a downward adjustment of \$439,000 to a proposed augmentation to replace Information Technology Hardware in three Strategic Support activities.

Other Funding Changes

Funding for completion of programs and projects authorized in the prior year was approved. The majority of the rebudgets occurred in three areas: Capital (\$12.6 million), Earmarked Reserves (\$56.9 million) and City-Wide Expenses (\$30.0 million).

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ADOPTED BUDGET BALANCING STRATEGY (CONT'D.)

Future Implications

As shown on Table III and mentioned above, a total of \$1.3 million in one-time solutions were approved as part of the strategy to balance this budget.

The most recent projections for the General Fund in 2008-2009 (as shown in the March 2007 Five-Year Forecast document) was for a shortfall of approximately \$25.5 million that year. Assuming the basic assumptions utilized in that forecast were close to being correct, the carryover impact of the one-time measures contained in this budget would lead to an increase of \$1.3 million in the estimate and a shortfall in 2008-2009 of approximately \$27 million.